Collective Bargaining and Wages

Zafiris Tzannatos

Presented at the ILO course
Wage Policies in the Arab Countries
17-20 September 2012
Amman
Economic Performance Declines as Collective Bargaining Increases?

Economic performance

Low
Centralization, Concentration, Coordination
High
Need first to understand

- What are “unions”?  
- What do they do with employers (collective bargaining)?  
- In what kind of economy?  
- Under what type of government?  

**Fundamental Question:** How to separate the effect(s) of each one or combinations of the above?
Outline of the presentation

– Some methodological issues
  • Definition, country specificity, implementation

– Find out the effects of collective bargaining *when it exists*:
  • this is different than what happens when collective bargaining is introduced

– Use professional references only and look for conclusions applicable to the longer-run
  • One gets a different picture from studying current affairs as reported by the media

– Conclusion:
  • It is methodologically difficult to generalize
  • Still, some conclusions possible
  • Lots remain to be learnt and is changing over time
Based on Zafiris Tzannatos and Toke Aidt

Book

Articles

Plus some updates
1. Pros and Cons
Why Not Centralization?

• Centralization increases the risk of a general strike and wage pressures
  – It is easier for a single firm than it is for an entire industry or nation to replace workers in the event of a strike.
• As bargaining becomes more centralized, competitive pressure is reduced because firms acting in unison are less likely to lose their market share (product demand is more inelastic at the industry level than at the firm level).
  – This increases wage pressure and leads to higher unemployment.
• A reduction in wage dispersion leads to an economic misallocation of resources and lower output because wages become detached from local productivity conditions.
• Wage compression, moreover, reduces the incentive of workers to invest in skills, to exert effort and to choose jobs in high-productivity industries.
• Efficient bargaining (over wages, employment and job related benefits) is only feasible under decentralized bargaining.
• Work place co-operation and other participatory activities between unions and firms decrease under centralized bargaining.
But Can Decentralization Be Good?

1/ The input price externality: Decentralized wage gains are passed on as higher product prices, thus increasing the real cost of inputs for other firms.

2/ The fiscal externality: Decentralized wage gains lead to unemployment. The cost in terms of unemployment benefits is born by all tax-payers, not only those involved in wage setting.

3/ The unemployment externality: Decentralized wage gains increase overall unemployment, making it more difficult for all unemployed workers to find a new job.

4/ The envy externality: Decentralized wage gains create envy among other workers.

5/ The consumer price externality: Decentralized wage gains are passed on as higher product prices, thus lowering the real wage of all workers.

6/ Efficiency wage externality: At the decentralized level, firms have an incentive to try to increase the relative wage of their workers to increase their motivation.
2a. Methodological Difficulties

1. What are “unions” and “collective bargaining”?  
2. Do employers matter?  
3. What role do governments play?  
4. What difference does the state of the economy make?
“Unions? What Unions”

• Union density
  – % of workers unionized

• Union coverage
  – % of workers covered by coll. agreements

• Other measures
  – e.g. closed shop, index of power of exposed sector unions etc
The Coordination of Bargaining: What Do You Mean?

- Union concentration
- Union centralization
- Employer centralization
- Level of bargaining
- Informal coordination
- Corporatism
- Other (pattern bargaining, indexes etc)
The Coordination of Bargaining

A. **Union centralization:** The capacity of the national union confederation to influence wage levels/patterns across the economy.

B. **Union concentration:** Union concentration is high if “few” unions at the relevant level of bargaining are representing workers.

C. **Employer centralization:** The capacity of the national employers’ confederation to influence wage levels/patterns across the economy.

D. **Level of Bargaining:** Collective bargaining takes place at different levels: the firm level, the industry level, and the regional/national level.

E. **Informal coordination:** (1) *Informal consultations* at the industry, regional, or national level among unions and firms. (2) *Pattern bargaining* (an agreement in a dominant sector is mimicked by other sectors).

F. **Corporatism:** A combination of (1) High union density and bargaining coverage and a high degree of union and employer centralization/concentration and (2) Social partnership between national workers’ and employers’ organizations and the government.

G. **Other aspects:** This include different types of dispute resolution procedures, the proportion of unionized workers employed in sectors that are subject to international competition, and union density.
There is weak relationship between the % of workers (a) who are union members and (b) whose wages are affected by collective bargaining.

Table 5.2: Union Density and Bargaining Coverage in Selected OECD Countries

<table>
<thead>
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<td>71</td>
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<td>UK</td>
<td>45</td>
<td>50</td>
<td>34</td>
<td>70</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>US</td>
<td>23</td>
<td>22</td>
<td>16</td>
<td>26</td>
<td>18</td>
<td>18</td>
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<tr>
<td>Average</td>
<td>43</td>
<td>47</td>
<td>40</td>
<td>72</td>
<td>70</td>
<td>68</td>
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</table>
Country Rankings by Alternative Indicators of Bargaining Coordination

*(low rank means high degree of coordination)*

<table>
<thead>
<tr>
<th>Country</th>
<th>OECD1997-1</th>
<th>OECD1997-2</th>
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<td>Australia</td>
<td>3 1 14</td>
<td>7 5 15</td>
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<td>Austria</td>
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<td>1 1 1</td>
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<td>Belgium</td>
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<td>10 10 9</td>
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<td>Canada</td>
<td>17 17 16</td>
<td>18 17 16</td>
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<td>Denmark</td>
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<td>4 5 6</td>
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<tr>
<td>Finland</td>
<td>2 4 4</td>
<td>7 5 6</td>
</tr>
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<td>France</td>
<td>8 8 5</td>
<td>13 10 9</td>
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<td>Germany</td>
<td>8 8 5</td>
<td>1 1 1</td>
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<td>Italy</td>
<td>15 14 5</td>
<td>15 15 4</td>
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<td>Japan</td>
<td>17 17 16</td>
<td>1 1 1</td>
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<td>Netherlands</td>
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<td>10 10 9</td>
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<td>New Zealand</td>
<td>8 16 16</td>
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<td>Norway</td>
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<td>15 1 5</td>
<td>13 10 9</td>
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<tr>
<td>Spain</td>
<td>3 8 5</td>
<td>10 10 9</td>
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<tr>
<td>Sweden</td>
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<tr>
<td>Switzerland</td>
<td>8 8 5</td>
<td>7 5 6</td>
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<tr>
<td>UK</td>
<td>8 14 14</td>
<td>15 16 16</td>
</tr>
<tr>
<td>US</td>
<td>17 17 16</td>
<td>18 17 16</td>
</tr>
</tbody>
</table>

**Changed over time ->**

**Constant time ->**

**Medium or Highest? ->**

**Lowest or Highest? ->**
Unions, Employers, Governments, Economies ...

- Closed economy
- Open economy
- Competitive economy
- Monopolistic economy
- Developing economy (low- and middle-income)
- Advanced economy (high income)
- Autocracy or democracy
What is “Government”?  
(Hypothesis of Coherence)

<table>
<thead>
<tr>
<th></th>
<th>Left-wing Government</th>
<th>Right-wing Government</th>
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<tbody>
<tr>
<td>Powerful unions</td>
<td>Good performance</td>
<td>Bad performance</td>
</tr>
<tr>
<td>Weak unions</td>
<td>Bad performance</td>
<td>Good performance</td>
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</table>
2b. Methodological Difficulties (effects)

Micro?
Macro?
## Microeconomic Effects (1)

**On Workers**
- Wages/minimum wages
- Hours of work
- Job mobility
- Training
- Social security
- Other worker benefits

**On firms**
- Costs/Profitability
- Pay systems
- Productivity
- New technology
- Employment growth
- Physical investment
- Research and development
Macroeconomic Effects

**Single indicators**
- Economic growth
- Aggregate productivity
- Inflation
- Compensation (wage) growth
- Wage dispersion
- Earnings inequality
- Labor supply
- Employment rate
- Unemployment

**Composite indicator**
- Okun’s index (unemployment + inflation)
- Open economy (unemployment + deficit)
- Job quality (employment – wage dispersion)
- Growth/Inflation (GDP slow down + inflation)

**Measures of Flexibility**
- Search effectiveness
  - ratio of vacancies to unemployment
- Aggregate real wage flexibility
  - to unemployment
What is what effect from what?

So, which of the 30 or so effects on micro and macro indicators comes from nearly 200 combinations of unions, employers, governments and types of economies?
3. EFFECTS
Microeconomic effects on wages

• The union effects on the performance of firms vary and are often ambiguous but, in general:

• Gender effects
  – Wage mark-up tends to be greater for women than men
  – Higher mark-up decreases the male/female wage gap but increases inequality within women workers

• Large effect if
  • multi-unionism and separate bargaining (leap frogging)
  • especially in “closed shops” (mandatory unionization)

• More generally, unions can create wage differentials in favor of their members (“mark up”)
  – But is this bad? Depends on the overall effects of unions (see chart slide)
If competitive wages in the absence of unions = 100, what does it mean if RED wages are 20% more than BLUE wages?

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**Diagram Description:**

- **Competitive:**
  - Wage: 100, 100

- **Zero sum:**
  - Wage: 110, 90

- **All win, some less:**
  - Wage: 130, 110

- **All lose, some more:**
  - Wage: 90, 70
Effects (Macroeconomic)

• More labor market coordination seems to be better for low unemployment, earnings inequality, fewer strikes than semi – and uncoordinated LM
• Coordinated and uncoordinated LM fare equally in terms of productivity growth and wage flexibility
• No difference in inflation and employment rates
• Differences in performance during the 1970s/1980s were reduced or became very weak in the 1990s
Performance before and after an improvement in labor standards (average growth rates, %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Reform year</th>
<th>GDP Growth</th>
<th>Export Growth</th>
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<tr>
<td></td>
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<td>Before</td>
<td>After</td>
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<tr>
<td>Turkey</td>
<td>1986</td>
<td>6.1</td>
<td>2.7</td>
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<tr>
<td>Fiji</td>
<td>1987</td>
<td>9.8</td>
<td>5.8</td>
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<tr>
<td>Korea</td>
<td>1987</td>
<td>10.7</td>
<td>8.6</td>
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<tr>
<td>Taipei</td>
<td>1987</td>
<td>9.6</td>
<td>6.9</td>
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<tr>
<td>Brazil</td>
<td>1988</td>
<td>5.3</td>
<td>0.9</td>
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<td>Thailand</td>
<td>1992</td>
<td>10.7</td>
<td>8.2</td>
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<tr>
<td>Argentina</td>
<td>1983</td>
<td>-0.2</td>
<td>1</td>
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<tr>
<td>Uruguay</td>
<td>1985</td>
<td>-7.6</td>
<td>4.4</td>
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<tr>
<td>Philippines</td>
<td>1987</td>
<td>-1.3</td>
<td>4</td>
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<td>Panama</td>
<td>1989</td>
<td>-0.5</td>
<td>10.5</td>
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<tr>
<td>Venezuela</td>
<td>1990</td>
<td>2.7</td>
<td>5.2</td>
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<tr>
<td>Dominican Rep.</td>
<td>1990</td>
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<td>4.5</td>
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<td>Honduras</td>
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<td>Guatemala</td>
<td>1992</td>
<td>4.1</td>
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<td>Ecuador</td>
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<td>Suriname</td>
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<td><strong>Average</strong></td>
<td></td>
<td><strong>3.81</strong></td>
<td><strong>4.34</strong></td>
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</table>
Table 2.2: Relationship between Core Labor Standards and International Trade: Evidence from OECD and Non-OECD Countries

<table>
<thead>
<tr>
<th>Trade indicator</th>
<th>Definition</th>
<th>Result</th>
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<tr>
<td>Trade performance.</td>
<td>Growth in the share of a county’s exports in total world trade (measured as total export, raw material export, or manufacturing export), 1980-1990.</td>
<td>No correlation</td>
</tr>
<tr>
<td>Revealed comparative advantage.</td>
<td>Index for comparative advantage calculated for 71 sectors on the basis of foreign trade performance for these sectors.</td>
<td>No effect on the pattern of revealed comparative advantage. Comparative advantage is, by and large, determined by the abundance of factors of production and technology.</td>
</tr>
<tr>
<td>Trade prices</td>
<td>US import prices of textiles from a group of other OECD and non-OECD countries.</td>
<td>No effect on border prices in the US for similar, imported textiles from different countries. Likewise, US import of textiles from “high-standard” OECD countries has not been “crowded out” by imports from “low-standard” non-OECD countries.</td>
</tr>
<tr>
<td>Trade liberalization</td>
<td>The change in tariffs and quantitative trade restrictions, 1980-1990.</td>
<td>Positive correlation with the trade liberalization.</td>
</tr>
<tr>
<td>Foreign direct investment (FDI)</td>
<td>OECD investment outflow to non-OECD countries, 1975-1993.</td>
<td>Low labor standards not an important factor for investment decisions in OECD firms.</td>
</tr>
<tr>
<td>Export-processing zones (EPZ)</td>
<td>Firms in an area that offers privileges with regard to government policies.</td>
<td>In only 6 countries out of the 73 that have established EPZs, evidence exists of deliberate government attempts to restrict freedom to associate and the right to bargaining collectively. The countries are Bangladesh, Jamaica, Sri Lanka, Pakistan, Panama, and Turkey.</td>
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</table>
Table 2.3: Macroeconomic Performance and Freedom of Association

<table>
<thead>
<tr>
<th>Performance indicator</th>
<th>Relationship</th>
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<tr>
<td>GDP per capita, 1990</td>
<td>Weak association</td>
</tr>
<tr>
<td>Productivity growth, 1973-1992</td>
<td>Weak association</td>
</tr>
<tr>
<td>Real wage growth, 1973-1992</td>
<td>No association</td>
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Collective Bargaining versus Insurance

An important source of uncertainty about future wages is a country's openness to international trade and the process of globalization (and more recently, the financial crisis).

Workers tend to be risk-averse worker i.e. dislike uncertainty about future wages and this means they have an incentive to buy insurance against the wage risk. This kind of insurance is not privately provided.

Can different types of labor market institutions that reduce the uncertainty of future labor earnings serve as substitutes?

Countries that are more exposed to external risks (as measured by the volume of trade) tend to have:
• more centralized systems of collective bargaining,
• more compressed wage structure,
• higher unemployment benefits (income replacement ratio) and
• higher minimum wages (relative to average wages).
What is the Conclusion?

Economic Performance Declines as Collective Bargaining Increases?

Performance can go in various different ways as bargaining increases.
Future Research

- Union/Nonunion differentials and spill over effects of collective bargaining need to be examined against efficiency gains and losses. Effects can be:
  - At the macro level: good (low inflation) and bad (high unemployment)
  - At the micro level: good for some (employment at high wages) and bad for others (low wages and unemployment)

- Reverse causation (especially relevant for globalization and financial crises):
  - unions do not cause ... but are the result of openness to trade and vulnerability to shocks
Press conference by Dimitris Daskalopoulos, Chairman of the Board of Directors, Hellenic Federation of Enterprises

16 November 2010
“The achievement of the [IMF/EU] fiscal targets in 2010 and 2011 appears to range from doubtful to impossible ... If the MoU leads to national divisions, change will become impossible and bankruptcy unavoidable ... Collective agreements ... are useful, are a way to avoid conflict ... Let’s leave companies and workers to communicate between themselves and find their own solutions ... What we support is derived from Europe, not from African countries where workers are whipped. Europe is envied globally for its system of social protection”.

May 2012
“We should abolish the recent law that imposes a reduction of the minimum wage by 22 percent”

THANK YOU